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computel



ANNUAL REPORT 1968

COMPUTEL SYSTEMS LTD.

— COMPUTING BY TELEPHONE

computel

COMPUTEL SYSTEMS LTD.



ANNUAL REPORT 1968



Computer

THE UNIVERSITY OF MICHIGAN

ANNUAL REPORT
1988

ANNUAL REPORT

Computel Systems Ltd. was incorporated in September, 1967 and commenced operations on February 1, 1968. The first fiscal year of the company has seen a new enterprise created in which price and contractual guidelines as well as basic operational policies have been established.

The success of any new company is largely dependent upon the calibre of people it is able to attract. Our company has been fortunate in acquiring an extremely talented group of progressive, young, Canadian computer professionals, to commence developing a new concept in the field of computer services.

FINANCIAL

During the period from July, 1967 to January, 1968 the company acquired the nucleus of people necessary, provided in-depth training, and commenced marketing our services. Pre-operating expenses of \$59,572 were incurred.

On February 1, 1968 the company initiated contracts and acquired business which covered the total cash expenditures for the month by month operation. The company's monthly revenue met and exceeded total expenditures, including all depreciation and carrying costs, during the final month of operation in the current fiscal year.

MARKETING OBJECTIVES

Your company is in the computer utility business, a business which provides the commodity computing to customers via high-speed data terminals connected by voice-grade telecommunication lines to a powerful central computer system. The company will proceed to add new computer systems or computing generators, as quickly as is economically sound.

The second system, a second Univac 1108 is being added to the network, to be operational in Toronto by February 1, 1969. The third system, an I.B.M. 360/65 is also scheduled in for operation by February 1, 1969 to fill a demand created by the company in Ottawa. Major systems may be added to Montreal and other Canadian cities as is dictated by demand for the company's service.

It is possible to supply services throughout North America from one specific location. However, it is strategically and psychologically beneficial to locate utility centres in heavily populated areas so that local people can directly associate with the facility that they are planning to utilize. For this reason, the company's systems will be located in major cities during the next several years, and will be interlaced by means of communications lines.

Your company is in the process of building a marketing force in order to effectively present the financial advantages of purchasing the product computing as opposed to buying from manufacturers, computer equipment.

COMPUTEL LEASING LTD.

Your company believes to-day's very large scale computers on a cost/performance basis will represent excellent value after 8 years depreciation. Efficient utility processing involves building a system which optimizes cost/performance. Computel therefore incorporated a leasing subsidiary which will contribute immediate earnings as well as supply the company with additional necessary equipment. Computel Leasing with ensured residual values complements the activities of the company, better serving the objectives of the utility concept.

SALES

During the first fiscal year the company's principal business was with the Canadian Federal Government. This was in the form of major terminal contracts with five departments of the Government, supplemented by drop-in or transient business from fifteen other departments or government agencies. During the months of July and August, Computel's five principal terminal customers, to our knowledge processed more billable jobs than any other computer system in Ottawa and district area has ever handled.

During the final month of the year, business resulting from marketing efforts in Toronto accounted for about one-fifth of the company's gross revenue.

Your management foresees a strong demand for the services as supplied by the company in the ensuing years. If a trend to purchase computing as a commodity as opposed to acquiring computer systems develops as is the belief of your management, then Computel is in an excellent position to capture a major percentage of this new market.

BOARD OF DIRECTORS

Your management is pleased to report that they have acquired the services of a strong and interested Board of Directors. This Board, currently serving without remuneration, is actively participating in all policy decisions of the company, and has greatly strengthened the functional expertise of management.

PUBLICITY

Your management has been gratified by the amount of favourable publicity that the company has received via the news media. Our activities have generated stories in most of the major financial newspapers and have been the source of articles in several special releases. The company handled the computing requirements for the CTV network on the night of the Federal Election, June 25, 1968. For these efforts, your company received considerable publicity at a very early stage of our history.

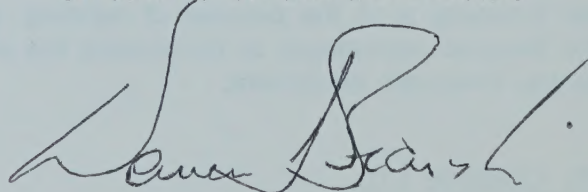
Due to the nature of our business, your management has been requested to address several major associations and organizations. We anticipate that this newsworthiness will continue, in that we are creating a business in an area considered to be exciting by the public.

CONCLUSION

The demand for computing and services associated with computing is excellent. Your company has been successful in demonstrating an ability to service this market. The next few years require strong, aggressive management combined with effective marketing to capture a major position in the market place.

Your company plans to meet the demand before us.

On behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read "Warren D. Beamish", is written over a horizontal line.

WARREN D. BEAMISH
President

Ottawa, Ont.
November 21, 1968

AUDITORS' REPORT

To the Shareholders of
COMPUTEL SYSTEMS LTD.:

We have examined the consolidated balance sheet of Computel Systems Ltd. as at August 31, 1968 and the consolidated statements of income and deficit, pre-operating expenses and source and application of funds for the period from date of incorporation September 6, 1967 to August 31, 1968. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1968 and the results of their operations and the source and application of their funds for the period ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Ottawa, Canada
October 15, 1968.

CLARKSON, GORDON & CO.
Chartered Accountants

COMPUTEL

(Incorporated on September

CONSOLIDATED

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ASSETS

Current:

Cash	\$ 45,032
Accounts receivable	44,504
Prepaid expenses	15,389
	<u>104,925</u>

Fixed, at cost:

Computer and ancillary equipment	2,227,675
Furniture and fixtures	15,543
Leasehold improvements	39,738
	<u>2,282,956</u>
Less accumulated depreciation	145,106
	<u>2,137,850</u>

Other, at cost:

Pre-operating expenses (statement 3)	38,427
Bond and share issue expenses (less amortization)	74,099
Incorporation expense	5,772
	<u>118,298</u>
	<u>2,361,073</u>

On behalf of the Board:

B. D. BEAMISH, Director

R. T. HORWOOD, Director

(See accompanying no

SYSTEMS LTD.

(1967 under the laws of Canada)

BALANCE SHEET

31, 1968

LIABILITIES

Current:

Bank loan (against which accounts receivable have been pledged as collateral)	\$ 25,000
Accounts payable and accrued charges	73,347
Bond interest payable	15,187
Current portion of long-term debt	193,000
	<u>306,543</u>

Long-term debt (note 2):

9% first mortgage sinking fund bonds, due January 15, 1975	1,350,000
Less sinking fund instalment due within one year	193,000
	<u>1,157,000</u>

Shareholders' equity:

Capital stock (note 3) —

Authorized:

1,000,000 common shares without nominal or
par value

Issued:

500,000 shares	990,791
Deficit (statement 2)	(93,252)
	<u>897,539</u>
	<u>2,361,073</u>

COMPUTEL SYSTEMS LTD.

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT FOR THE SEVEN MONTH PERIOD ENDED AUGUST 31, 1968 (Note 4)

Income:

Computer utility time charges	\$372,413
Terminals	43,735
Input/output charges	64,520
Miscellaneous	5,806
	<u>486,474</u>

Expenses, including depreciation (note 5):

Utility centre equipment	188,115
Terminal equipment	50,717
Salaries and employee benefits	129,495
Administration	81,572
Supplies and other operating expenses	32,025
Amortization of pre-operating expenses (statement 3)	21,145
Amortization of bond and share issue expenses	7,464
Bond interest	65,018
Bank interest and charges	4,175
	<u>579,726</u>

Loss for the period, being deficit at August 31, 1968	<u>\$ 93,252</u>
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(See accompanying notes to financial statements)

COMPUTEL SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF
PRE-OPERATING EXPENSES

AND SOURCE AND APPLICATION OF FUNDS

FOR THE PERIOD FROM SEPTEMBER 6, 1967 TO AUGUST 31, 1968

PRE-OPERATING EXPENSES

Salaries	\$ 33,845
Printing, stationery and supplies	6,018
Travel	5,660
Rent	3,596
Bank interest and charges	3,060
Other, net	7,393
	<u>59,572</u>
Less amount amortized	21,145
	<u>\$ 38,427</u>

SOURCE AND APPLICATION OF FUNDS

Source of funds:

From operations —

Loss for the period	\$ (93,252)
Depreciation	145,106
Amortization of bond and share issue expenses	7,464
Amortization of pre-operating expenses	21,145
	<u>80,463</u>
Bonds issued	1,350,000
Shares issued	990,791
	<u>2,421,254</u>

Application of funds:

Purchase of fixed assets	2,282,956
Pre-operating expenses	59,572
Bond and share issue expenses	81,563
Incorporation expense	5,772
Current portion of long-term debt	193,000
	<u>2,622,863</u>
Deficiency in working capital at August 31, 1968	<u>\$ 201,609</u>

(See accompanying notes to financial statements)

COMPUTEL SYSTEMS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 1968

1. CONSOLIDATED SUBSIDIARY:

The consolidated balance sheet includes the assets and liabilities of Computel Leasing Ltd., a subsidiary company, incorporated on June 3, 1968. Computel Leasing Ltd. did not commence operations until September, 1968.

For a consideration of \$2,000, Computel Leasing Ltd. has agreed to allot to a key employee on or before October 31, 1968 a number of shares of its capital stock which when allotted will equal 2% of its issued capital.

2. LONG-TERM DEBT:

Under the terms of the Trust Deed securing the 9% first mortgage sinking fund bonds, annual sinking fund instalments of \$193,000 are required beginning in 1969. In addition the Company may, at its option, redeem bonds at any time prior to maturity at prices ranging from 109% of the principal amount if redeemed on or before January 15, 1969, to 100% of the principal amount if redeemed after January 15, 1974.

The Company may not pay any cash dividends on its common shares until all of the first mortgage bonds have been retired.

3. CAPITAL STOCK, STOCK OPTIONS AND RESERVATION OF SHARES:

During the period from the date of incorporation September 6, 1967 to August 31, 1968, 50,000 common shares of the capital stock of the Company were issued for cash of \$990,791. Subsequently, by Supplementary Letters Patent dated May 4, 1968, the authorized share capital of 100,000 shares was subdivided into 1,000,000 shares.

Options have been granted to certain employees of the Company and its subsidiary to purchase in the aggregate 4,821 common shares as follows:

<i>Number of Shares</i>	<i>Date Options Granted</i>	<i>Market price at date options granted</i>	<i>Expiry Date</i>	<i>Option Price</i>
1,500	May 1, 1968	\$16	April 30, 1973	\$16
1,500	May 1, 1968	16	April 30, 1973	24
178	May 21, 1968	22	Dec. 31, 1968	20
43	Aug. 14, 1968	33	Dec. 31, 1968	30
600	Aug. 14, 1968	33	Aug. 13, 1971	30
1,000	Aug. 20, 1968	33	Aug. 31, 1971	33

144,821 shares have been reserved for the above stock options and for the conversion of the 6% convertible subordinated debentures issued subsequent to the period end (note 8 below).

4. PRE-OPERATING EXPENSES:

Commercial operation of the Company's computer began in early February 1968 immediately after it had been certified ready for use by the manufacturer. Accordingly, expenses incurred prior to that date were charged to pre-operating expenses. Pre-operating expenses are being amortized in equal monthly instalments over the period from February 1, 1968 to August 31, 1969.

5. DEPRECIATION:

Depreciation has been provided at rates designed to amortize the cost of depreciable assets over their estimated useful life which in the case of the computer and the major portion of its ancillary equipment has been estimated to be eight years with provision for a 15% residual or salvage value. Depreciation charged against income in the period ended August 31, 1968 amounted to \$145,106.

6. LONG-TERM LEASES:

The Company occupies leased premises under agreements of from two to five years' duration. The total annual rent payable under these agreements is \$30,580. In addition, the Company leases certain ancillary equipment for \$6,000 per month and has arranged for maintenance services on the computer and all ancillary equipment for \$7,500 per month.

7. STATUTORY INFORMATION:

Remuneration paid to directors of the Company as officers and employees amounted to \$28,200. No remuneration was paid to directors as such.

8. EVENTS SUBSEQUENT TO THE PERIOD END:

Pursuant to an underwriting agreement dated August 10, 1968, the Company issued and sold \$5,000,000 6% convertible subordinated debentures dated September 15, 1968 and due September 15, 1988 for a cash consideration of \$4,750,000. Expenses in connection with the issue were approximately \$50,000.

\$4,350,000 of the proceeds were allocated to a loan fund to be held in trust for the Company from which the Company may draw amounts not exceeding the aggregate of (a) 110% of the cost of computers and computer equipment purchased by Computel Leasing Ltd., and (b) the aggregate principal amount of debentures converted into common shares.

The 6% convertible subordinated debentures are convertible into common shares at a conversion rate of 28 shares for each \$1,000 principal amount of debentures at any time prior to September 15, 1978. The Trust Indenture, under which the debentures were issued, requires the Company to retire through the operation of a sinking fund, \$500,000 principal amount of debentures in each of the years 1979 to 1987 inclusive. In addition, the Trust Indenture provides that the Company may at its option redeem debentures at any time prior to maturity at prices ranging from 106% of the principal amount if redeemed on or before September 14, 1969, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the convertible subordinated debentures have been retired.

COMPUTER MATERIALS LTD

OFFICE OF COMMERCIAL DEVELOPMENT, 100, QUEEN'S ROAD, LONDON, W1

TELEPHONE 01-275 1111

TELEGRAMS: COMMATL LONDON

Computer Materials Ltd is a public limited company registered in England and Wales, number 1002751. The company is authorised to carry on business in any part of the world. The company is a member of the London Stock Exchange and is listed on the First Section of the Official List of the Companies Act 1963. The company is a member of the Association of British Chambers of Commerce and the Association of British Manufacturers.

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